2012-10

The Rhetoric and Reality of Supply Chain Management in Irish Business

Edward Sweeney
Technological University Dublin, edward.sweeney@tudublin.ie

Recommended Citation

Sweeney, E. The rhetoric and reality of supply chain management in Irish business. Linkline, the Journal of the Chartered Institute of Logistics and Transport (CILT) in Ireland, Autumn 2012, pp. 23-24. October, 2012

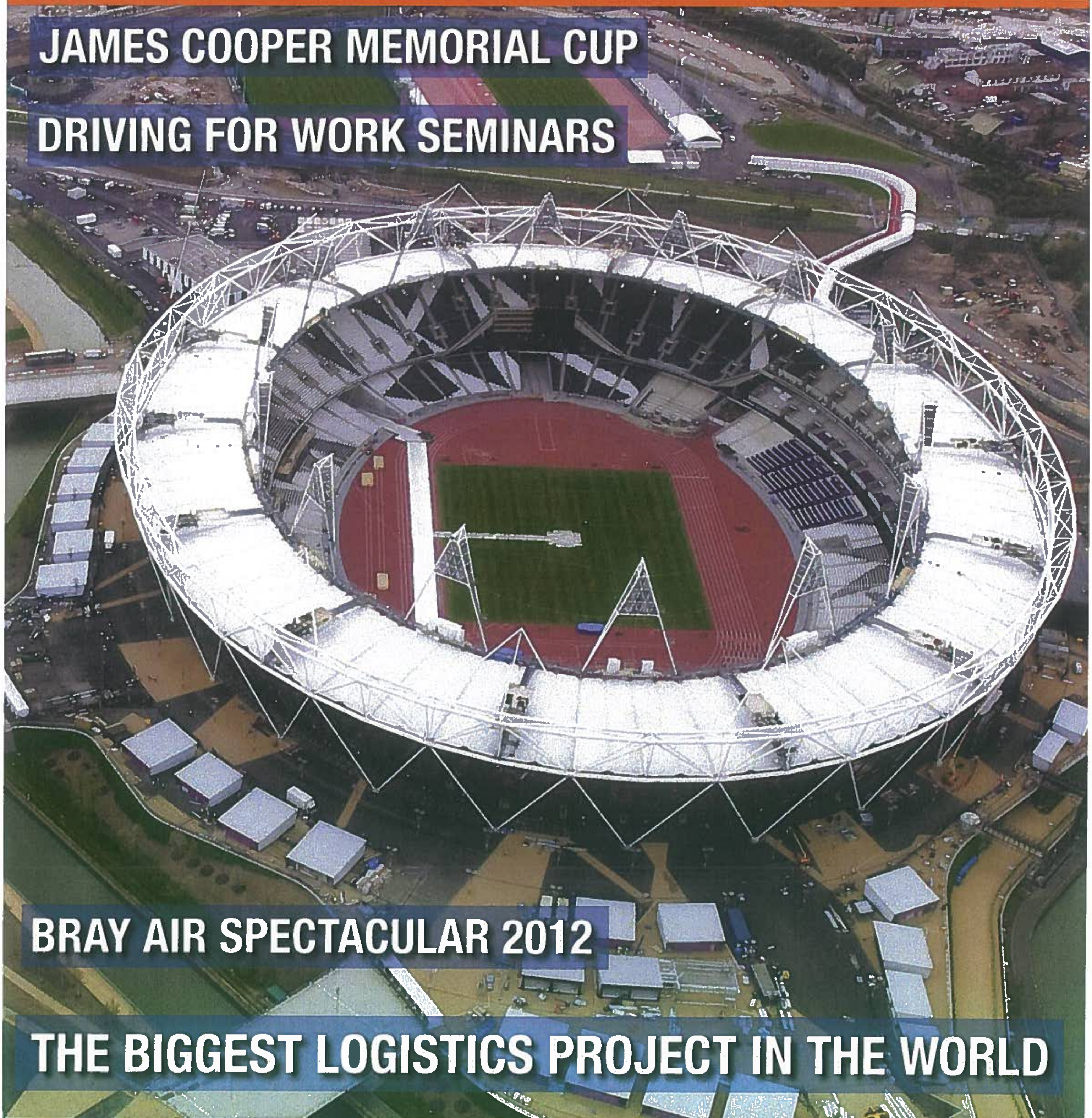
LINKLINE

The Chartered Institute of Logistics & Transport

www.cilt.ie

Autumn 2012

€3.00



JAMES COOPER MEMORIAL CUP

DRIVING FOR WORK SEMINARS

BRAY AIR SPECTACULAR 2012

THE BIGGEST LOGISTICS PROJECT IN THE WORLD

THE RECOGNISED PROFESSIONAL BODY FOR ALL PROFESSIONALS INVOLVED IN THE LOGISTICS AND TRANSPORT INDUSTRIES IN IRELAND.

THE RHETORIC AND REALITY OF SUPPLY CHAIN MANAGEMENT IN IRISH BUSINESS

BY EDWARD SWEENEY, NITL

1. BACKGROUND AND CONTEXT

There is significant evidence in the academic literature that the effective implementation of supply chain management (SCM) can result in improvements in the performance of firms. In particular, the adoption of SCM's core principle or "big idea" of integration has the potential to significantly reduce non-value adding activities (NVAs) – those activities that add cost without necessarily adding value – many of which are caused by fragmentation of information and processes across the supply chain. However, there is also significant evidence of a divergence between the idealised view of SCM often propounded in the academic literature (the "rhetoric") and the way in which supply chains are managed in practice across various sectors (the "reality").

A strong focus of NITL's research activity is on monitoring the extent to which SCM principles and concepts are adopted by organisations based in Ireland. For more than a decade this work has aimed to develop a profile of SCM adoption, as well as identifying some of the critical success factors and barriers influencing firms in their attempts to improve supply chain capability and performance. This article explains the role of SCM in Ireland's economic recovery and provides an overview of NITL's latest findings in relation to the adoption of SCM practices by firms in Ireland.

2. THE ROLE OF SCM IN IRELAND'S RECOVERY

Ireland is a small, open, trade-dependent economy and between the mid-1990s and 2007 was one of the fastest growing economies in the developed world. During that period of unprecedented economic growth the level of Irish real gross domestic product (GDP) almost doubled in size and the Irish economy was transformed from its historical agrarian and traditional manufacturing base to one increasingly based on the hi-tech and internationally traded services sectors. Since 2007 there has been a serious contraction in the size of the economy with crises in the banking and property sectors - as well as high levels of government, corporate and personal debt - contributing to one of the deepest recessionary periods ever seen in any modern economy.

Nonetheless, Ireland's economy continues to be one of the most open in the world. The high share of combined imports and exports in GDP (for example, over 180% in 2010) and the continuing high levels of foreign direct investment (FDI) capital inflows are illustrations of this openness.

Throughout this difficult economic period the export sector proved remarkably resilient. For example, according to the ESRI merchandise exports increased by 6% in value in 2010. Government policy has a strong emphasis on export-led growth as the key to economic recovery. In this context, logistics and SCM will play an important role. A number of other issues combine to make logistics and SCM particularly critical from an Irish perspective. The country's relatively peripheral location results in transportation costs for companies based in Ireland being higher than those in more favourable locations. Furthermore, the corporate taxation regime (in particular the 12.5% tax rate on service businesses) makes the option of companies establishing business units (profit centres) in Ireland with responsibility for the management of supply chain activities attractive. One of the challenges in this scenario is the ability of Irish businesses to manage increasingly complex and global supply chain configuations. Excellence in SCM can offset the physical disadvantage posed by Ireland's geographic location by securing savings elsewhere in the wider supply chain, as well as by generating improvements in customer service levels.

3. OVERVIEW OF CURRENT PRACTICES

The findings presented in this article are based on the preliminary analysis of a recent empirical survey. This survey forms one part of a larger research project that aims to provide fresh insights into SCM adoption in Irish firms. The research covers firms of all sizes (i.e. small and medium-sized enterprises and large companies) and ownerships types (e.g. public enterprises, publically listed companies and private firms) across most sectors of the economy. It was based on a sample of just over 1,000. A detailed description of all of the findings is beyond the scope of this article. Nonetheless, it is instructive to review findings in the specific areas of: setting supply chain objectives; supply chain integration (SCI); management of supply chain flows; supply chain relationship management; and, implemented and/or planned supply chain improvements.

SETTING SUPPLY CHAIN OBJECTIVES

While the majority of surveyed firms do formulate specific SCM objectives these are somewhat limited in that they relate in the main to the traditional areas of cost and customer service. Objectives that relate specifically to environmental sustainability, for example, are formulated in a small number of firms. With customer service ranked as more important than price or product quality, the majority of firms use customer service audits to understand customer expectations and competitor performance. A relatively wide range of customer service elements are measured with on-time delivery and product availability measured by the majority of respondents. However, some potentially important elements of customer service (e.g. information request responsiveness) are not measured in most firms. It is also worth noting that SCM objectives that relate specifically to customer service are most common (formulated in over 70% of surveyed firms). Combined with the fact that the great majority of respondents concurred with the notion that understanding customer service "sets the specification" for supply chain design and management, the evidence suggests that this key concept is well embedded in firms' thought processes. Although "total supply chain cost" is measured in less than a quarter of firms, wide use is apparently made of formal costing methodologies (such as activity-based costing).

SUPPLY CHAIN INTEGRATION (SCI)

In relation to SCI, the fact that the great majority (84%) of respondents indicated that their internal activities were either "highly integrated" or "somewhat integrated" could be interpreted as being positive. However, given that half of the respondents stated that their internal supply chain activities were only "somewhat" integrated suggests that there is significant room for improvement in this area. A similar picture exists in relation to external integration with large numbers again stating that their activities were only "somewhat" integrated with customers and suppliers (48% and 38% respectively).

For example, just 35% of respondents assessed their activities as being either "fully" or "highly" integrated with those of the customers (the equivalent percentages for internal and supplier integration were 42% and 45%). It is often suggested that supply chain activities are managed in a fragmented way as a consequence of fragmented performance measurement (i.e. "what gets measured gets done!"). The survey suggested that while firms measure a wide range of performance parameters, there is little evidence of any genuinely inter-organisational key performance indicators (KPIs) being used.

MANAGEMENT OF FLOWS

The majority of surveyed firms suggested that material and money flows are "well" or "very well" managed. However, a significant number of respondents suggested that material, money and – in particular – information flows were only "adequately" managed. This again suggests that there is significant room for improvement in how flows - particularly information flows - are managed. In terms of the adoption of information and communications technology (ICT), the survey indicates that a wide range of relatively advanced tools are in use. However, preliminary analysis of the data challenges the view that ICT in itself is the key enabler of SCI and suggests that the manner is which information flows are managed is the critical issue.

SUPPLY CHAIN RELATIONSHIP MANAGEMENT

Finally, relationships – both between internal functions, as well as with external customers and suppliers – were judged to be strong in the majority of firms. However, the data suggests that significant differences exist between companies depending on their sector, size and ownership. For example, larger multinational firms are more likely than their smaller indigenous counterparts to have strong relationships with their customers.

SUPPLY CHAIN IMPROVEMENTS

While major supply chain improvement initiatives have been undertaken in the majority of surveyed firms during the last two years, most respondents indicated that their firms either had no major supply chain initiative planned for the next two years or were unaware of any such initiative. It is interesting to note that the majority of implemented and planned improvement initiatives are characterised as either technological or operational (i.e. rather than people-related or strategic) suggesting that the focus of improvement continues to be quite limited. However, there is evidence that planned future initiatives have a more strategic and chain-wide orientation than their predecessors.

4. SOME CONCLUDING OBSERVATIONS

The preceding sections do no more than provide an overview of some of the headline findings from our recent research. The findings from the research suggest that the SCM concept is widely understood and that SCM thinking is firmly embedded in the strategies of many firms. However, the findings also indicate that while pockets of SCM excellence undoubtedly exist there is significant room for improvement in the great majority of firms. Interestingly, firm demographics impact significantly on this, with smaller indigenous firms (particularly in sectors defined as "traditional" by the Central Statistics Office) lagging behind their larger multinational counterparts, most of which operate in CSO-defined "modern" sectors.

The pressures imposed and opportunities afforded by globalisation, the open nature of the Irish economy and recent developments in ICT mean that SCM has a critical role to play in both the medium and long term. Making companies aware of SCM and building the necessary capability and competence is essential for Irish business in order to minimise the impact of peripherality and to enable firms – particularly smaller firms - to take advantage of emerging global supply chain opportunities.

ABOUT THE AUTHOR

Edward Sweeney is Director of Learning at the National Institute for Transport and Logistics (NITL), based in the Dublin Institute of Technology (DIT). He is well known in the Irish logistics and supply chain community for his work as an educator, researcher, consultant and author.

The findings of the research referred to in this article will be published by NITL later this year.